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Pension & Investments

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The Newspaper of Corporate and Institutional Investing

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AT DEADLINE

British fund assets tapped

As a result of recent changes in U.K. pension legislation, Cincinnati Milacron, a producer of machine tools and plastics machinery, plans to withdraw approximately $10 million in surplus assets from the pension fund of its British subsidiary. The move will result in a $4 million tax expense in the third quarter. The company did not disclose how it will use the surplus.

2 funds select executives

Karen L. Kellerman has been hired as investment officer for the $1.4 billion North Dakota State Investment Board, replacing Leroy Gilbertson, who left last January. Ms. Kellerman, a financial analyst with Chevron, will assume the post in November.

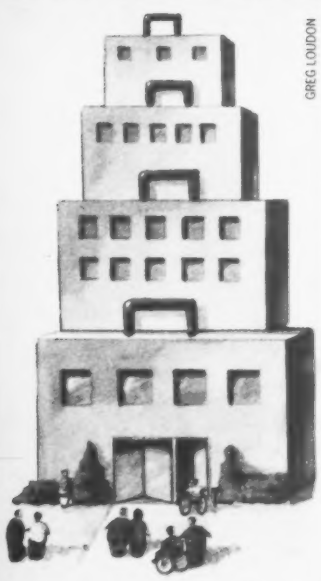
Doug McCalla has assumed the job of investment officer for the $900 million San Diego City Employees' Retirement System, a new position. He previously was a retirement system board member and city revenue analyst.

Financing booms in '91

Financing volume in the first three quarters of 1991 exploded 61% to $384.3 billion from the 1990 period's $238.1 billion, mostly because of investment-grade debt issuance, according to preliminary figures from IDD Information Services. New investment-grade issues rose to $329 billion so far this year, from $213 billion in the first three quarters of 1990.

Continued on page 35

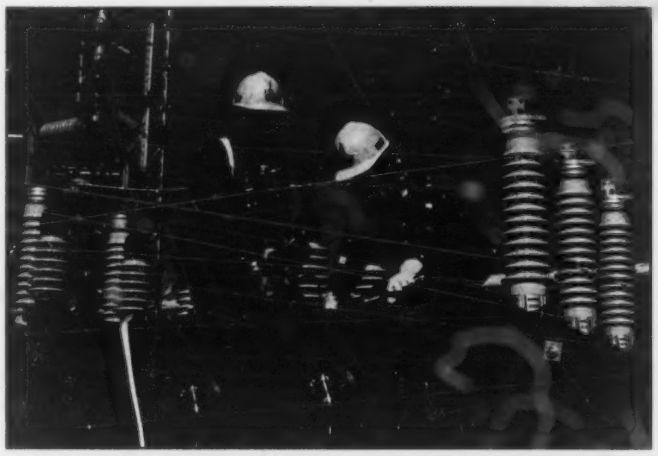
INSIDE



GREG LOUDON

Law could hit buildings

Institutional real estate investors might be the first to feel the pinch of new legislation that could adversely affect the value of properties that do not reflect the needs of people with disabilities. In Commentary, Page 14.



Rochester Gas & Electric's $125 million in fixed income should generate enough cash flow to pay benefits for the next seven years.

Benefit payouts key to allocation strategy

By Anne Schwimmer

ROCHESTER, N.Y. — Rochester Gas & Electric Corp. has altered the way it makes its asset allocation decisions in hopes the company no longer will have to contribute to the now-fully funded $410 million pension fund.

The fund committed $125 million to high-quality, fixed-income investments whose cash flow should pay benefits for the next seven years.

Such a move gives "some confidence that there is proper liquidity in the portfolio," said Sean Higman, director of trust asset management at Rochester G&E.

The commitment to bonds remains unchanged. "The only subtle difference is how we determine how much we have over there," Mr. Higman said. "For the first time, (managers) are going to have to give us a regular cash flow," with yields and maturing bonds meeting payment needs.

"Before, when we needed (money), we would take it on an ad hoc basis."

Fund officials and consultant Rogers, Casey & Associates, Darien, Conn., calculated the dollar amount of benefit payments that will be drawn down on the fund over the next seven years, then set aside $125 million to invest in fixed income to meet the benefit payments.

The remainder of assets will be invested in a broad equities cate-

See **Utility** *on page 31*

Adapting to change

Firms use invention to catch 401(k) dollars

By Curtis Vosti

More and more banks and independent money managers are finding innovative ways to compete with mutual fund companies in tapping the 401(k) market.

Whether by developing communication products, offering administrative and record-keeping services or modifying investment approaches, the changes all are in response to a fundamental change in the growth of investible assets. Defined benefit plans — once the bread and butter of these money management operations — aren't growing, and defined contribution plans are.

Sometimes, however, the moves can backfire.

In September, INVESCO MIM Inc. lost its management of $800 million of the $3.2 billion Windsor II mutual fund, sponsored by The Vanguard Group of Investment Cos., Valley Forge, Pa.

Brian Mattes, a vice president at Vanguard, said the mutually agreed-upon split was based on a perception that INVESCO's separate mutual fund operations could offer a fund that would compete directly with Windsor.

An INVESCO spokesman declined to return phone calls. In 1989, the firm had moved heavily into competition for 401(k) dollars, purchasing the Financial Funds Group of Denver, which now has almost $4 billion under management.

Two years ago, the firm launched INVESCO Solutions, a turnkey record-keeping, administration and communication service in Louisville, Ky., meshed with its investment management

See **401(k)** *on page 35*

IRS opens door to swap market

Proposal would exempt deals from tax

By Joel Chernoff

WASHINGTON — The Internal Revenue Service has opened the door to investments by tax-exempt institutions in the nearly $3 trillion swap market.

A proposed rule issued by the IRS is expected to wash away any fears that pension funds and other tax-exempt institutions would incur unrelated business taxable income from engaging in swaps. The IRS specifically would exempt currency and interest-rate swaps from taxation as of Aug. 30, 1991, while other, newer products would have to receive individual governmental approval.

The proposal is expected to launch a wave of marketing efforts to tax-exempt funds, whose more than $3 trillion in assets could make them a significant force in the swap market. Leading U.S. swap dealers include Morgan Guaranty Trust Co. of New York, Security Pacific National Bank, AIG Financial Products and Merrill Lynch & Co. Swiss and Japanese banks also are expected to market to U.S. funds.

The question of being taxed has discouraged most tax-exempt institutions from entering the growing swap market. Only a few tax-exempt institutions, notably the Harvard University endowment fund and the Teachers Insurance and Annuity Association — College Retirement Equities Fund, have entered the market.

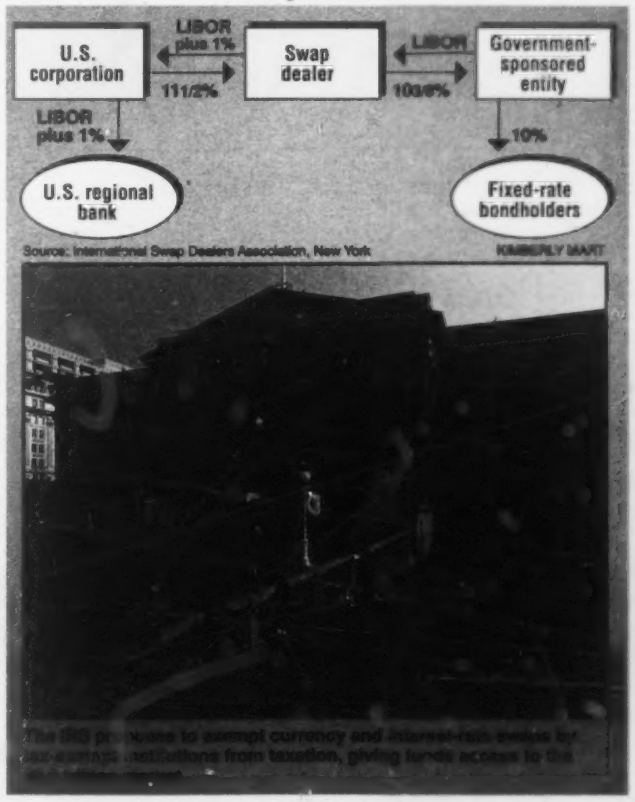
Experts welcomed the IRS guidance. "We think it's the right result, that these are appropriate investments that should be permitted without incurring tax," said Peter Clapman, senior vice president and chief counsel, investments for TIAA-CREF.

"For the last 10 years, pension funds and tax-exempts have sort of been playing with one hand tied behind their back," said Richard Leibovitch, vice president, global swaps and derivatives,

See **Swaps** *on page 32*

An interest-rate swap

The advantage to the corporation is that it achieves funding at a fixed dollar rate that is lower than the cost of a fixed-rate issue. The advantage to the government-sponsored entity is it achieves funding at a lower floating rate cost than would be available with a floating-rate note.



NEWS DIGEST

DAVID LAWRENCE

Steak & Ale's parent, S&A Restaurant Corp., recently turned to the private market to place $200 million in senior and subordinated debt with international investors. Page 6.

Business groups and executives came out strong in their opposition to the Securities and Exchange Commission's proposed changes to the proxy process. Page 4.

Standard & Poor's Corp.'s unveiling of its MidCap 400 has changed the agency from market measurer to marketer of investment vehicles. In Opinion, Page 13.

PIC Europe has found a lucrative line of business: arranging private deals between European firms and U.S. investors. Page 20.

The combination of two models — one based on growth, the other on value — creates an investment tool that gleans the best of both styles. Page 21.

Soft-dollar allocations increased 37% in 1990, continuing an upward trend, a recent survey shows. Page 26.

RCB Trust selected three managers for its minority trust while some question the criteria used for inclusion in such funds. Page 28.

SPECIAL REPORT: LARGEST NON-U.S. MANAGERS

***Pensions & Investments'* foreign adviser** survey shows the Top 10 controlled more than 28% of the total assets run by the 100 biggest firms. Page 17.

FINANCING

The $3 trillion swaps market could get a boost from an IRS proposal that would lead to more participation from tax-exempt institutions. Page 1.

INTERNATIONAL

British Rail Pension Trustee Co. is among the U.K. investors considering a more active approach to corporate governance issues. Page 3.

REAL ESTATE

Property buyers and sellers remain far apart in their expectations, leading to a substantial decrease in the dollar volume of transactions. Page 8.

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Payments to broker probed

Massachusetts bars 2 firms from new state business

By Terry Williams

BOSTON — Aetna Life & Casualty Co. and Massachusetts Financial Services have been prevented from taking on new public pension fund business in Massachusetts pending the outcome of a state regulatory agency inquiry into the business practices of the two firms.

But the "cease and desist order" barring MFS is under immediate review, said John J. McGlynn, commissioner of the Public Employee Retirement Administration, which regulates state funds.

Mr. McGlynn wouldn't explain why the PERA took action against Mass Financial, and he wouldn't discuss the Aetna case.

Aetna officials have admitted to Massachusetts public pension fund clients they had a contract with stockbroker Carmine Elio to pay Mr. Elio a commission for bringing the company pension fund business. Mr. Elio formerly was chairman of the Massachusetts Retirement Law Commission, which had pushed for fuller funding for public pension funds.

Mr. Elio, however, did not disclose the financial arrangement to the pension funds, according to Joseph E. Connarton, chairman of the retirement board for the $119 million Cambridge (Mass.) Retirement System.

As a result of the disclosure, the Cambridge system last week terminated its relationship with Aetna, Mr. Connarton said. Aetna managed $19 million in equities, real estate and fixed income for Cambridge.

"That is a breach of the public trust, and that's why we moved as quickly as we did," said Mr. Connarton.

The $22 million Beverly Contributory Retirement System is awaiting an opinion from its city solicitor on whether to pursue legal action against Aetna, one of its managers, according to Ruth Morgan, executive secretary.

Aetna, however, has proposed a settlement in which it would pay Beverly the commissions the insurer paid to Mr. Elio.

"We wouldn't have done this (invest with Aetna) if we knew," said Ms. Morgan. "We were one shocked group of people" when Aetna officials informed the board of the secret contract, Ms. Morgan said.

Massachusetts Attorney General Scott Harshbarger has so far held two meetings, one "with agencies that may be relevant as far as their jurisdictional responsibilities," and one with the legal counsel of the local retirement boards that are clients of Aetna, said Thomas Samoluk, a spokesman for Mr. Harshbarger.

Mr. Samoluk said he couldn't

See **Payments** *on page 31*

PBGC faces financial disaster

LTV ruling sparks emergency efforts

By Joel Chernoff

WASHINGTON — A damaging court ruling in The LTV Corp.'s bankruptcy proceeding could cause the PBGC's premiums to double or worse, the agency's executive director said.

To avert a financial disaster, the Pension Benefit Guaranty Corp. is drafting emergency legislation that would force LTV to continue funding its nearly depleted Jones & Laughlin Hourly Pension Plan, readying broader legislation to improve the PBGC's status in bankruptcy proceedings and appealing the court decision.

But the impact of the decision could be severe. "If allowed to stand, it will encourage other companies to enter bankruptcy and stop funding their pension plans," James Lockhart, the PBGC's executive director, told the National Employee Benefit Institute.

Under the PBGC's baseline scenario, the agency's projected deficit would increase to $5.5 billion instead of $2.1 billion by 2000 when the effects of the LTV ruling are taken into account. And if companies dump more underfunded plans on the agency, the baseline scenario could jump to $10 billion in nine years, Mr. Lockhart said.

Under the agency's pessimistic scenario, the agency's deficit would soar to $16 billion instead of the currently projected $11.4 billion. The agency's current deficit is about $2 billion.

"A doubling (of the single-employer plan premium) and well above that is foreseeable if we cannot get the kind of fixes we are looking for," Mr. Lockhart said.

The current base premium for single-employer plans is $18 per participant. Employers with underfunded plans pay a surcharge of up to $54 per participant.

The Sept. 13 ruling by U.S. District Court Judge Kevin Duffy said the PBGC is not entitled to preferential treatment as a creditor in LTV's bankruptcy proceedings. That ruling threw out the PBGC's claims that four missed contributions and its claim for 30% of LTV's net worth are entitled to priority status.

Instead, Judge Duffy lumped the PBGC in with LTV's other unsecured creditors. The effect could be to reduce the PBGC's recovery from close to 100 cents on the dollar in cash to between 10 cents and 15 cents on the dollar in LTV stock. About $6 billion in claims are pending against LTV.

"Without priority claims, PBGC could lose nearly $2 billion in the LTV case alone from the combination of the J&L Plan and the Republic Salaried Plan," which was terminated in 1986, the agency said.

The court also ruled the bankruptcy court, not the PBGC, can set the interest rate to value the pension liability. The bankruptcy court had set the interest rate at 11.5%; the PBGC had picked 7.5%. The higher interest rate lowered the PBGC's claims by 40%, Mr. Lockhart said.

In addition, the judge held the Department of Labor could not force the Dallas-based steelmaker

See **LTV** *on page 35*

Suits on Kansas losses to grow

By Curtis Vosti

TOPEKA, Kan. — The fireworks are continuing for the $4.4 billion Kansas Public Employees Retirement System as it seeks to untangle the mess surrounding its troubled direct investment portfolios.

In the coming weeks, the system is expected to add to its lawsuit against those it holds responsible for more than $200 million in direct placement losses. Possible cases against more than 100 defendants have been investigated, according to Leonard Ring, a Chicago attorney the board hired in June to pursue civil litigation.

The expected additional lawsuits come on the heels of a flurry of activity in connection with the board's Sept. 13 meeting related to the controversial direct placement investments, begun in 1985.

In the spring, the board fired its two direct placement managers as a joint committee of the Kansas Legislature heard allegations of duplicity, fraud and losses in connection with the direct placement programs.

The potential losses are estimated to have grown from $60 million to $100 million and now, more than $200 million.

The controversy led to the resignation of the fund's executive director and the creation of the position of investment officer, and an initial suit against one of the direct placement managers, Reimer & Koger, Shawnee Mission.

At the Sept. 13 meeting, the board accepted the resignation of Callan Associates Inc., its consultant for 15 years, and began the process of hiring a new one; voted 4-2 to fire Peters, Gamm West & Vincent Inc., Wichita, from its management of a $444 million fixed-income portfolio; and heard a report from its direct placement workout manager, Pacholder Associates Inc., that recommended the board set aside an additional $121 million to cover potential losses in the portfolios.

The board earlier had written off $109 million in losses from the portfolios in which it had invested $468 million in venture capital opportunities in Kansas and Missouri. The losses included a total writeoff of a $65 million investment in the failed Home Savings Association of Kansas City, Mo.

That loss prompted legislative hearings, an FBI investigation

See **Kansas** *on page 33*

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S&A latest to turn to private financing

By Anne Schwimmer

DALLAS — S&A Restaurant Corp., owner of Bennigan's and Steak & Ale restaurants, placed $200 million in senior and subordinated debt with international institutions.

The deal is another example of a leveraged company turning to institutions for both senior and subordinated financing rather than for subordinated financing alone. Highly leveraged Del Monte Corp. also did a senior financing with institutions rather than banks (*Pensions & Investments*, Sept. 16).

Some predict leveraged companies like S&A and Del Monte increasingly will turn to institutions in the private market for affordable senior financing rather than rely solely on commercial banks, which are under regulatory pressure to decrease their risky holdings.

"Borrowers are looking to the private placement market . . . rather than to banks," said Robert Svehlak, chief financial officer of Steak & Ale.

"Banks are so restricted with all the HLT restrictions and regulatory requirements. I think the state of the banking industry . . . is creating an opportunity for the private placement market," he said.

Mr. Svehlak said that major investor Nippon Credit Corp. is acting as quasi-trustee and agent for two of the tranches. That encouraged other Japanese banks and leasing companies to step up for a piece of that debt. These investors purchased $105 million.

Other major investors SunAmerica Investments Inc., Los Angeles, and Carl Lindner's American Financial Corp., Cincinnati.

Bennigan's and Steak & Ale were bought out by Metromedia Co. for an undisclosed amount in July 1989. Metromedia, which controls 90% of the holding company, S&A Restaurants, is the investment vehicle of financier John Kluge.

The private deal refinanced a $105 million bridge loan that backed the buy-out and a $30 million term loan that had been led by Chemical Bank, said Kenneth Moelis, managing director at Donaldson, Lufkin & Jenrette Securities Corp., New York, adviser to S&A Restaurants.

In an unusual twist, the remaining $65 million was lent to Metromedia, which will use $38 million of it to buy zero-coupon U.S. Treasury securities for a trust fund that will secure the $66 million seven-year subordinated notes portion of S&A's financing. The zero-coupon Treasuries will accrete to $66 million, Mr. Moelis explained. The remainder will be used for fees and other purposes.

Thanks to the securitization of the subordinated debt, both the senior and subordinated portions of the S&A deal were rated BBB by Duff & Phelps Credit Rating Co. and 2 by the National Association of Insurance Commissioners.

The subordinated tranche — priced to yield 11.15% — was secured by zero-coupon U.S. Treasury securities so Metromedia did not have to give up equity in the company to get the deal done. Private placement buyers typically require an equity kicker with riskier subordinated debt, but Metromedia doesn't like to "give away equity," Mr. Svehlak said. ■

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CORRECTIONS & CLARIFICATIONS

• **Dusco Inc.** was omitted from the Sept. 16 ranking of real estate investment advisers. Dusco has $134 million in tax-exempt assets under management, all in equity real estate. Dusco would have ranked 65th on the list.

MONEY MANAGERS

WPG hopes Eden purchase is genesis of good things

Eden Financial execs (clockwise from top left) Gary Scheier, Donald Reid, Bernard Tew and Joe Pappo have joined the team at Weiss, Peck & Greer.

■ Weiss, Peck & Greer soon will begin offering a quantitative equity product to complement the firm's quantitative, constant-duration fixed-income strategy.

The New York-based investment firm, with $8.7 billion under management, has acquired Chicago's Eden Financial Corp. Eden specializes in portfolio variance reduction techniques. Terms of the deal were not disclosed.

The first quantitative equity product offered by WPG will be an optimized version of the Standard & Poor's 500 Stock Index.

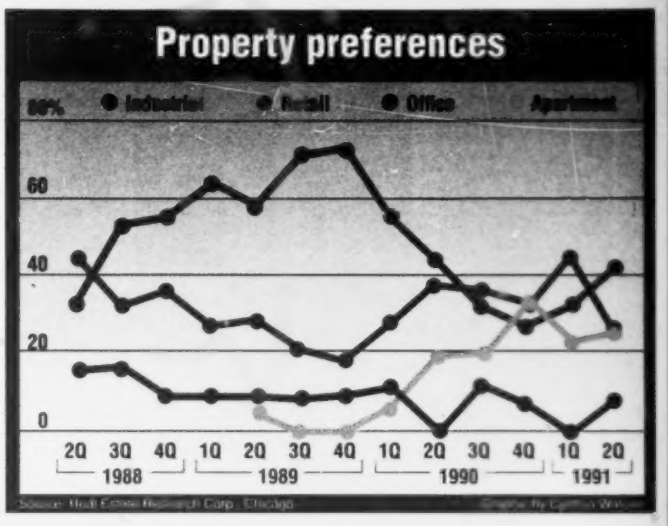
The product limits a stock's weighting to no more than times its index weight. A backtest of that strategy for the 10-year period ended Dec. 31 showed it outperformed the index by 457 basis points annually with 6% less risk per year before transaction costs.

"We feel this is an important product for the '90s," said Joseph N. Pappo, formerly Eden's president and now managing director of WPG's quantitative equity division. "As a start-up company, it would have taken time to establish ourselves, and this is an opportunity to accelerate the marketing process."

"We're excited to be joining Weiss, Peck & Greer, which gives us the opportunity to introduce our product to a wider segment of the industry," added Gary E. Scheier, who had been vice president of Eden and now will be senior portfolio manager in the quantitative equity division.

Also joining Weiss, Peck & Greer are Donald W. Reid and Bernard V. Tew, who were co-directors of research and development at Eden Financial. They will hold the same positions in WPG's quantitative equity division.

— Chuck Paustian



REAL ESTATE

Investors can't find right numbers

■ Targeted real estate yields aren't achievable these days, and that's why few property transactions have occurred so far in 1991, a survey suggests.

The survey — by Real Estate Research Corp., Chicago — shows yield expectations continued to rise in the second quarter, while the dollar volume of deals was as much as 50% behind the midyear goals set at the start of 1991.

"Bid/ask spreads remain too far apart to generate transactions," the RERC survey report said. "Most participants have debt and equity capital to place, but they can't find quality product at the right price."

Not surprisingly, the highest yields are sought on central business district offices and neighborhood/community retail properties, while the lowest yields are expected on regional malls.

In other results, RERC found 42% of investors surveyed prefer industrial property — the first time in a year that industrial has topped the list. After leading for three quarters, retail dropped to a second-place tie with apartments. Retail is preferred by 25% of respondents, down from 45%. Offices continued to be conspicuously absent from the list of favored acquisition types.

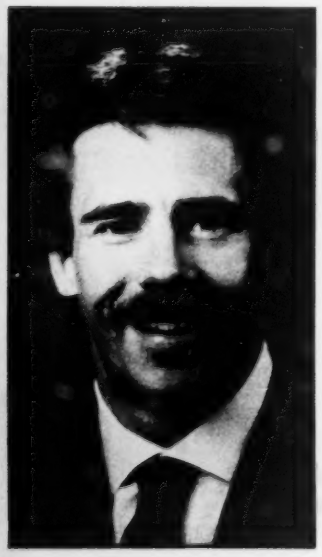
Selectivity, not geography, dictates acquisitions nowadays, respondents reported. Still, they leaned toward the East and West coasts, including Seattle; Portland, Ore.; San Francisco; Sacramento, Calif.; and Orlando and Tampa, Fla.

— Nancy K. Webman

VENTURE CAPITAL

Manager set to try new approach

■ The venture capital shakeout has left the industry stalled, but a Michigan venture capital manager is putting together a program he believes will be the model for the 1990s.



Tom Nastas has received some interest in his royalty approach to venture capital.

Tom D. Nastas, president of Innovative Ventures Inc., East Lansing, Mich., is taking a different approach to venture capital investing by using a royalty structure rather than the traditional venture capital equity approach. The royalty approach, he said, generates liquidity and returns independent of the exit market once a venture company becomes successful.

"Rather than rate of return and liquidity being tied to the exit market, we will tie it to sales; as long as there are sales we have a rate of return," Mr. Nastas said. "In the past, about 99% of venture capital investments were done on an equity basis, but you can't predict how well a company will do in the future; when you do an equity deal you presume growth."

Structuring the investments on a royalty basis exploits that "inefficiency and generates almost immediate income streams," said Mr. Nastas, rather than waiting for the traditional five- to seven-year "promised land."

His firm is considering a venture fund later this year using the royalty approach but, he said, the concept already has garnered attention from foreign officials interested in attracting capital to help rebuild central European economies.

— Fred Williams

INTERNATIONAL

Additions likely for benchmark

■ If John Conlin is right, the EAFE index soon will need a new name.

Mr. Conlin, marketing director of SBC Portfolio Management International Inc., New York, is among many international investment professionals predicting several countries outside Europe, Australia and the Far East will be added to the world stock market index in the next 10 years. (EAFE is the acronym for the Morgan Stanley Capital International Europe Australia Far East Index).

In three years, he says, eight countries are likely to join — Greece, Ireland, Luxembourg, Mexico, Portugal, South Africa, Thailand and Turkey.

In five years, Chile, Hungary, Indonesia, the Philippines, South Korea and Taiwan could be added. Hungary will be the first Eastern European country to make the grade because it's "so far ahead" of other countries in that region, Mr. Conlin said during a speech at Continental Bank's third annual employee benefits conference earlier this month in Chicago. Ten years from now, SBC predicts, Argentina, Brazil, China, Czechoslovakia, Egypt, India, Poland, Russia, the Ukraine and Venezuela will join.

— Nancy K. Webman

WASHINGTON

Black cat crosses the PBGC's path

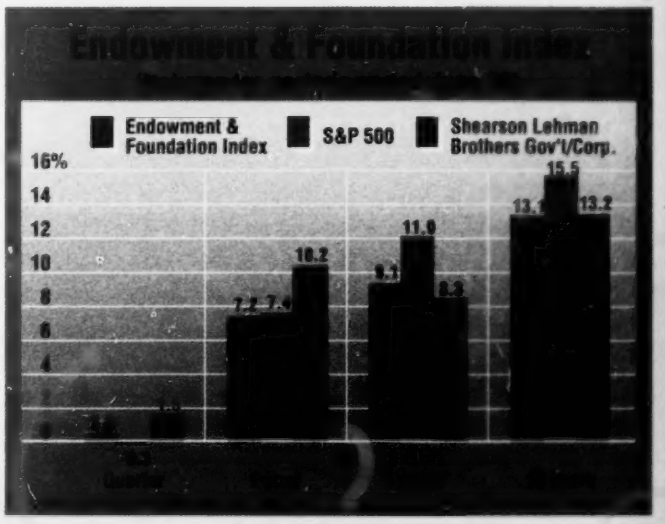
■ Friday the 13th turned out to be doubly unlucky for the Pension Benefit Guaranty Corp.

First, the power was off in the agency's K Street offices — affecting lights, elevators and ventilation. Then, at 5 p.m., a U.S. District Court judge dealt the agency a harsh blow in its struggle to get The LTV Corp. to fund its pension plans, ruling the agency would be considered an unsecured creditor in the five-year bankruptcy filing.

As the decision was relayed, Executive Director James B. Lockhart III remained in the sweltering building. "He stayed in the building, as a captain going down with his ship," joked an agency spokeswoman.

There was no relief for PBGC workers, as the building failed to regain its air conditioning during the record-breaking temperatures of the following week.

— Joel Chernoff



FINANCING

Avis enjoying first drive on private placement route

■ Avis Inc., Garden City, N.Y., has raised $50 million in senior debt in its first private placement since it became a private, employee-owned company in 1987.

It placed $50 million in senior notes due 2012 with Prudential Capital Corp., a subsidiary of Prudential Insurance Co. of America, Newark, N.J.

David J. Mryglot, Avis director of finance, said that prior to going private, "we had almost all our funding with banks. This time we decided to put our big toe in a different pool of water and see what happens."

Charles Mather, vice president at Prudential, which was the sole lender, said Avis is a leader in the rental car market and Pru hopes there will be opportunities to provide additional financing in the future.

Mr. Mryglot said tapping the private market "helps us to diversify our funding sources. Whether we'll do more depends on our requirements and what's available."

— Marlene Givant Star

Employee-owned Avis Inc. is cruising along in high gear after placing $50 million in notes with Prudential Capital Corp., a Prudential Insurance Co. subsidiary.

INTERNATIONAL

Paribas consolidates operations

■ Paribas Group has put its institutional and private individual money management activities together under the aegis of Paribas Asset Management, Paris, said Alain Leclair, chairman of Paribas Asset Management.

"You can't afford to have multiple asset management teams" anymore, he said during an interview in New York. "Asset management is becoming an industry. A client of Paribas anywhere in the world must be served according to the best criteria of asset management," he said, explaining the consolidation.

Paribas Asset Management has a strong emphasis on quantitative theory, according to Mr. Leclair, who describes French money managers as natural heirs of French mathematician Rene Descartes.

"For us, quantitative (money management) is science, but it is also pragmatism," he said.

Paribas has recently launched what Mr. Leclair said is the first Japanese quantitative equity fund, based on the Nikkei 225 Index, and is starting efforts to launch similar funds for the U.K., German and French markets.

— Anne Schwimmer

MONEY MANAGERS

Merrill grads open new shop

■ Two former Merrill Lynch & Co. employees have started Woodford Capital Management, a New York-based active equity management firm.

Peggy Woodford Forbes, president and chief investment officer, and Michael E.S. Gayed, director of research, hung the Woodford Capital shingle out in April. They manage $25 million for individual investors.

Ms. Forbes was a senior financial consultant with Merrill Lynch from 1981 to 1990. Mr. Gayed was a senior market analyst from 1983 to 1991.

The firm's research system — Strategic Asset Allocation System — integrates a large number of economic, fundamental and quantitative indicators into a single multidisciplinary model.

Over the course of the business cycle, SAAS generates signals that help forecast the economic outlook. SAAS sets up a comparative valuation screen that is used to structure portfolios and to determine the asset weighting based on that outlook.

— Terry Williams

Peggy Woodford Forbes

CORPORATE GOVERNANCE

ITT revamps compensation program

■ ITT Corp., New York, has been removed from the Target 50 shareholder activism program of United Shareholders of America, Washington.

The removal came after the company's compensation committee recommended that the full ITT board institute a series of changes to the company's executive compensation program.

ITT drew the ire of several institutional investors as well as USA, a group of individual shareholders, for what they said was unjustifiably high compensation levels for top executives.

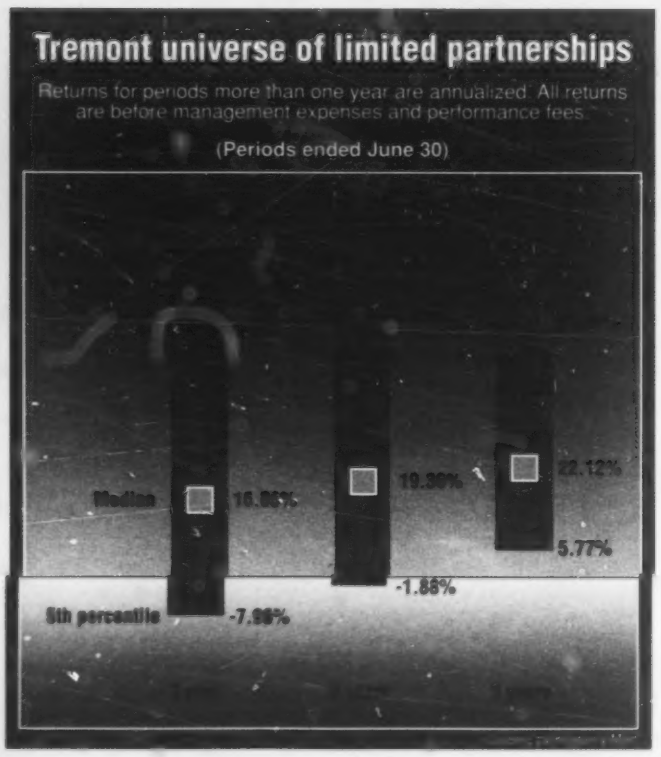
ITT's committee will recommend several changes in the executive incentive plan to more closely link the compensation of top executives with the company's long-term performance for shareholders.

"These planned changes in the company's executive incentive plan will ensure that the irrational compensation received by ITT's chief executive last year will not be repeated," said Ralph Whitworth, USA president.

Rand Araskog, ITT's chief executive, received total compensation estimated at between $7 million and $11.4 million in 1990, representing a 103% increase from the prior year. The company's share value declined 18% during the same period.

ITT also agreed to disclose details of the new compensation program to shareholders in its 1992 proxy statement.

— Marlene Givant Star



BENEFITS

New unit keys on post-retiree health funding

■ Peirce Park Group has launched a special division to assist companies with decisions relating to pre-funding post-retirement medical benefits.

The Wilmington, Del., consultant has developed an asset allocation model to guide companies through the uncertainties of managing looming retiree health liabilities. It also will assist in manager selection and performance evaluation for pre-funding.

Led by companies in regulated industries, the next wave of corporations to pre-fund likely will include firms with collectively bargained post-retirement medical benefits and those that want their employees to save toward the cost of future benefits, said Michael W. Shone, president of Peirce Park Group.

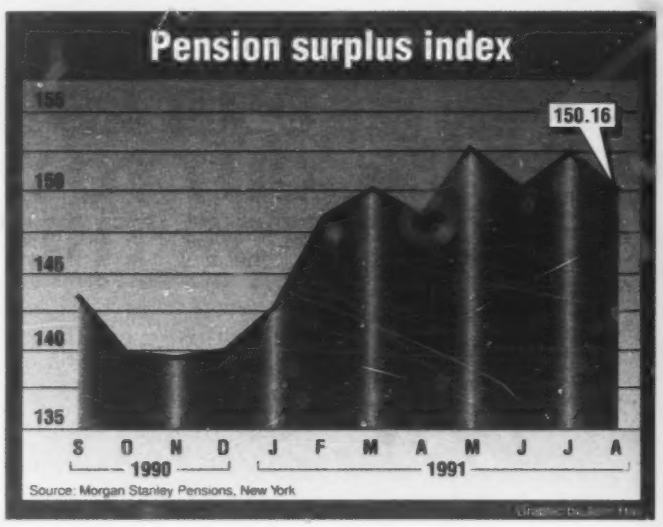
"Once a firm has decided to pre-fund, then they have to make a decision where they're going to allocate those dollars," he said.

The model, the product of four years work, steers companies through the hurdles of managing a liability that is radically different from a pension liability: Not only is the retiree medical liability significantly greater on a percentage basis, but it's also much less predictable, in part because of health care cost inflation.

Peirce Park's new model takes into account whether a company already has selected such funding mechanisms as a 401(h) account or a VEBA and considers variables such as rates of return, a company's medical cost trend rate and current retiree medical expenses.

What emerges is a surplus optimization model, or one that maximizes the growth of assets by allowing for an interactive effect between assets and liabilities. The model takes into account correlations between such macroeconomic influences as medical cost inflation and the Consumer Price Index and also correlates the allocation with a company's work force growth.

— Hilary Durgin



PUBLICATIONS

A Yellow Pages for the distressed

■ The soon-to-be-released National Directory of Corporate Distress Specialists is written proof that there are publications to fit every need imaginable.

The directory, published by Lustig Data Research Inc., Lawrence, N.Y., is the first in-depth guide to firms and professionals providing services in business bankruptcies, loan workouts, turnarounds and the management of high-yield and distressed investments.

The book is intended as a source for institutional investors and corporate distress specialists. Firms can get a free listing in the 1992 edition by contacting the publisher before Nov. 15.

— Marlene Givant Star

Obstacles for property investors and disabled

By Lawrence Nicholson

The Americans with Disabilities Act will have a decided influence on the way many companies do business, as its guidelines become more fully understood regarding applicability of its conditions and circumstances. For commercial real estate, the new law's rules will affect property owners and financiers because of its potential impact on real estate values.

Concern over the value of properties inaccessible to people with disabilities follows the Department of Justice's release in July of the act's final guidelines. The law will affect all existing public access facilities (e.g., restaurants, lodging concerns, entertainment facilities, office buildings, service establishments).

Pension funds and institutional investors are most likely to feel the law's impact first. Due to the vagueness of some of the act's rules, costly court battles appear imminent. Often referred to as having "deep pockets," these investors may be some of the first hit with lawsuits filed by those who do not believe that efforts are being made in accordance with the act's guidelines. The ambiguity of the law arises from some of its generalities, such as:

. What exactly is involved in full compliance? Who is exempt from complying? Who is responsible for compliance?

Owners have little time to contemplate what the conditions mean to them and to their properties before action is required. Provisions of the law state that owners must remove architectural and communication barriers by Jan. 26, 1992, if such removal is "readily achievable." Any additions or renovations to existing buildings completed after the same date also must meet the law's guidelines. What remains unclear is the interpretation of "readily achievable" and the consequences, if any, of compliance preparations that are incomplete as of the January deadline.

In terms of commercial property value, a primary factor will be the cost associated with renovating existing facilities to comply with the act. Exactly who is responsible for the cost of compliance is, as yet, undefined. If property owners are responsible, the costs incurred will be capital expenditures. Added to a building's existing capital expenditures, these additional costs will have a significant impact on the cash flow, and hence the value of a property.

Some real estate professionals believe these capital expenditures could be passed on to tenants as a reimbursable expense. Yet, this position raises a number of questions considering today's "tenant's market." For example, if tenants are to pay a prorata share of the cost of compliance, will the costs deter prospective tenants from leasing space in inaccessible building? Will the compliance issue become yet another factor in the battle over tenants?

Compliance could be "built in" to reimbursable operating expenses to be passed through to the tenants. This wouldn't prevent a negative impact on property values. Most office leases negotiated in today's market included a base year expense stop, a clause that limits a landlord's expense obligation because the lessee assumes expenses above an established level.

This expense stop is, in some cases, based on actual experience of the property, but in many cases it is market-driven. That is, in a competitive environment, the landlord will restructure leases with a higher expense stop or lower expense stop, depending on the demand. Competitive buildings have almost equivalent expense stops. Therefore, if one building's expenses inordinately rise beyond the stops as a result of compliance costs, the building's value will suffer.

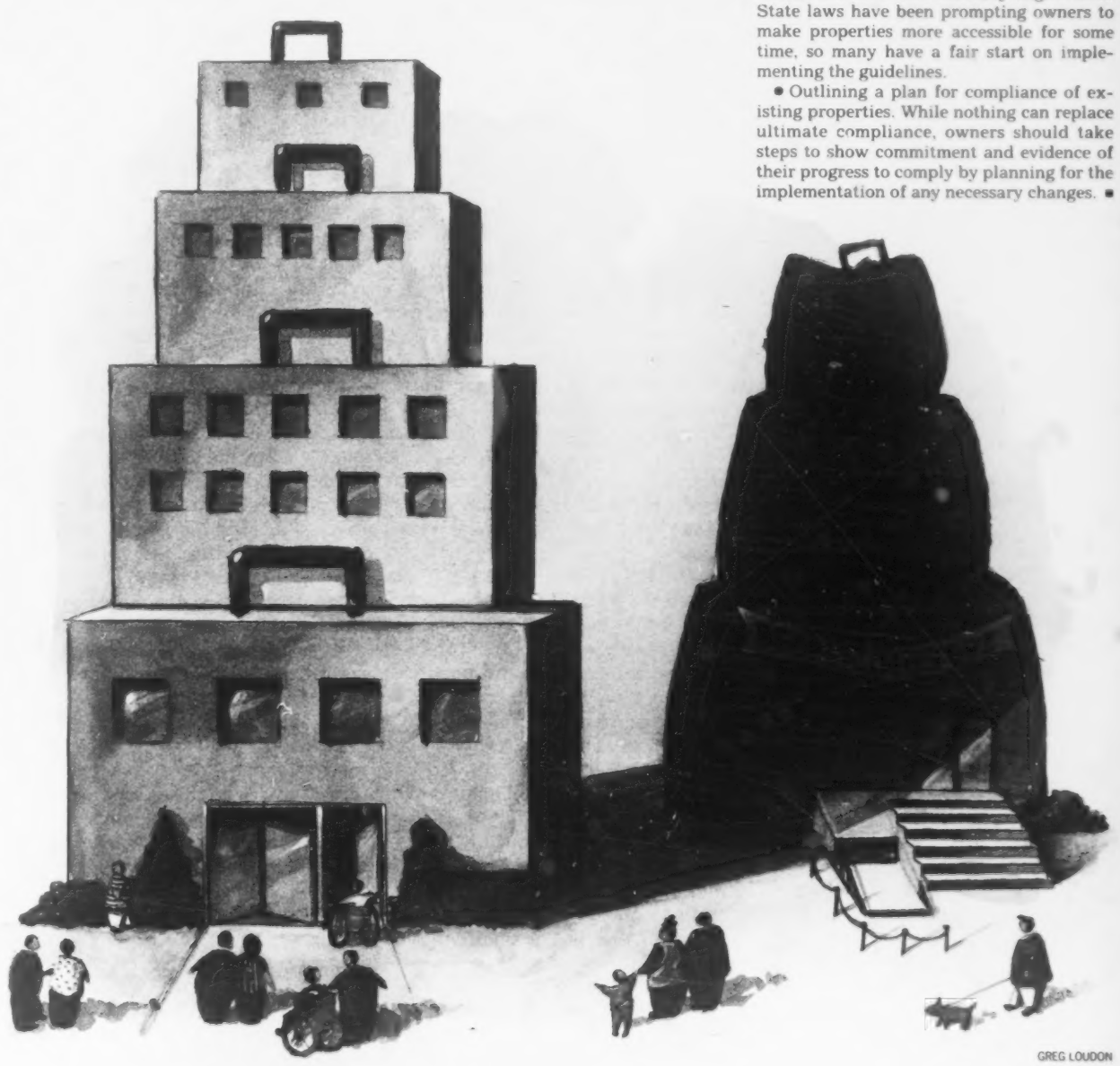
For example, assume Property A is in compliance with the disabilities act and Property B is not. Tenants trying to reduce actual occupancy cost would naturally locate in Property A. The result: lower occupancy in Property B and, thus, a reduction in the value of the property.

The act's guidelines are structured to ensure that future renovation or remodeling plans are made to comply. As of Jan. 26, 1993, new construction of commercial properties must be designed to meet the the act's requirements. In the meantime, the issue is how to best adhere to the ADA's guidelines in the time frame allocated and with those resources available.

Real estate investors can begin protecting their investment now by following a few logical steps. Specifically, by:

- Educating themselves about the act. There is no current data providing information regarding how many properties may already adhere to the act and what actions each requires to bring it within compliance levels. An understanding of the act's provisions is the first step to determining the extent of what action, if any, is necessary.
- Examining their current and future real estate investments against the known rules for compliance. Typical areas needing adaptation include rest rooms, elevators, stairways, doorways, drinking fountains and common areas. Many developers or owners are better off than they might think. State laws have been prompting owners to make properties more accessible for some time, so many have a fair start on implementing the guidelines.
- Outlining a plan for compliance of existing properties. While nothing can replace ultimate compliance, owners should take steps to show commitment and evidence of their progress to comply by planning for the implementation of any necessary changes. ■

Lawrence Nicholson is vice president and managing director-real estate advisory group of American Appraisal Associates, Milwaukee.



GREG LOUDON

LETTERS TO THE EDITOR

Ins and outs of firm's assets

■ Please note the figures Capital Research and Management Co. provided for the May 20 directory of managers erroneously included assets held in individual retirement accounts and individual 403(b) custodial accounts, but excluded endowment and foundation accounts.

Here are the corrected figures: As of Jan. 1, total assets managed, all of which were discretionary, was $37.831 billion. Total tax-exempt assets managed were $4.655 billion. Of that, $4.2 billion was in qualified retirement plans and $455 million was managed in endowment and foundation accounts. The latter represents data on accounts of more than $500,000 only.

Victor S. Sidhu
Senior vice president-client service division
Capital Research and Management Co.
Los Angeles

First int'l equity index fund

■ We were chagrined because Mellon Capital Management wasn't included in the June 24 listing of international managers.

The principals of Mellon Capital introduced the first international equity index fund in 1981. At Mellon Capital we began managing international index funds in 1987. In 1989 we introduced tactical asset allocation to international equity investing. In 1990 we extended it to global investing. As of March 31, we managed $513 million of assets with an international mandate.

Cary Martin Zellerbach
Executive vice president
Mellon Capital Management Corp.
San Francisco

Global manager since 1986

■ We were left out of your June 24 international manager directory. Loomis, Sayles has been managing global bond accounts since year-end 1986 and recently established an international equity group.

As of March 31 total assets managed were $23.198 billion; *total discretionary U.S.* tax-exempt assets, $16.83 billion; and active global bond accounts, $248 million. We had 484 U.S. tax-exempt clients, of which nine are global bond clients.

Ralph D. Sinsheimer
Vice president
Marketing & strategic planning
Loomis, Sayles & Co. Inc.
Boston

Managing foreign assets: The top 100

The 100 largest non-U.S. money managers handle $4.66 trillion in total assets, $1.317 trillion of which is controlled by the Top 10.

Foreign investments by the 100 account for at least 8.8% of their total assets. Among the Top 10, foreign investments account for at least 5.2% of total assets. Not all companies revealed how or where their assets were invested.

The Top 10 placed their foreign assets around the globe, with Japan, the United States, France, Germany and the United Kingdom showing up most frequently in their allocations.

The Top 10 managers, whose profiles start on this page, come from only three countries: Japan, accounting for six of the Top 10; Switzerland, accounting for three; and the United Kingdom, with one.

Those three countries also account for most of the firms among the 100 largest, with 31 Japanese firms, 22 U.K. firms and 12 Swiss firms identified. Also represented were France, with 11 companies; Germany, with seven; Canada, with five; the Netherlands, with four; Australia and Sweden, two each; and Denmark and Liechtenstein, with one firm each.

The statistics in the listing of the Top 100 were obtained from InterSec Corp., Stamford, Conn., with assistance from Euromoney. The information in the profiles was obtained by *Pensions & Investments* from questionnaires sent to the companies and other sources. The profiles were written by *P&I* reporter Anne Schwimmer.

Credit Suisse

ZURICH, Switzerland — Credit Suisse, with $140 billion, does not release information on its total assets.

Information is available, however, on the bank's asset management subsidiary, Credit Suisse Asset Management.

Credit Suisse Asset Management's primary clients are institutions. Assets under management are 37% from mutual funds, 33% from pension funds, 27% from corporations and 3% from private individuals.

The asset management group has 58% of its assets invested in fixed-income instruments, 30% in equities, 7% in equity-linked bonds (bonds sold with stock warrants that trade as a unit) and 5% in money market funds.

Among Credit Suisse Asset Management's fixed-income assets, 43% is invested in U.S. dollar-denominated bonds, 10% in Canadian dollar-denominated bonds, 3% in deutsche mark-denominated bonds and 2% in British pound-denominated bonds.

Of the equity assets, 12% is invested in the United States; 4% in the United Kingdom; 4% is divided between Spain and France; 3% is divided among Germany, Switzerland and the Netherlands; 2% is in Japanese stocks; 2% in Far East countries outside Japan; 2% is in Canada; and 1% in Australia.

The asset management group's equity-linked bonds are divided as follows: 3% in yen-denominated securities and 2% each in U.S. dollar- and British pound-denominated securities.

Based in Zurich, Credit Suisse has 75 subsidiaries, branches and representative offices around the world.

Dai-Ichi Mutual Life

TOKYO — Dai-Ichi Mutual Life Insurance Co. does not release information on its investments. It has $127.9 billion.

Nippon Life Insurance

OSAKA, Japan — Nippon Life Insurance Co. is an active fixed-income, equities and real estate equity manager that specializes mainly in investments in Japan. According to InterSec Corp., London, it has $183.4 billion under management.

Nippon Life, a Japanese insurer, manages the money of its insured clients only, of which 17.1% is in fixed-income investments, 26.3% is in equities, and 7.5% is in real estate equity.

Of its total assets, 81.4% is invested in Japan, while 4.7% is invested in the United States, 2.3% in Canada, 1.7% in Australia, 1.3% in France, 0.8% in Germany, 0.5% in the United Kingdom and 0.1% in Switzerland.

Based in Osaka, Nippon Life also has major offices in the United States, Canada, the United Kingdom, France, Germany, Australia, Singapore, Hong Kong and China.

Nomura Group

TOKYO — Nomura Group, with $112.9 billion, does not release information on its total assets.

Information is available, however, on its U.S. subsidiary, Nomura Capital Management Inc., New York.

The asset management group had $3.784 billion under management as of June 30 from the following sources: 49.6% from public funds, 33.7% from corporations, 13.3% from mutual funds and 3.4% form other institutions.

Most of its assets, 53.4%, are invested in Japan. Another 5.65% is invested in the United Kingdom, with 5.13% in the United States, 2.84% in France, 2.79% in Germany and 1.12% in Switzerland.

Most of Nomura's investments, 97.26%, are in equities, with the remainder in fixed-income securities.

Nomura Capital Management is owned by Nomura Investment Management Co., which also has subsidiaries in London and Singapore.

InterSec's 100 largest non-U.S. money managers*

	COMPANY	COUNTRY	AMOUNT
1.	Union Bank of Switzerland	Switzerland	184.9
2.	Nippon Life	Japan	183.4
3.	Credit Suisse	Switzerland	140.0
4.	Swiss Bank	Switzerland	140.0
5.	Zenkyoren	Japan	132.5
6.	Dai-Ichi Mutual Life	Japan	127.9
7.	Nomura Group	Japan	112.9
8.	Sumitomo Mutual Life	Japan	109.5
9.	Post Office Life Insurance Bureau	Japan	102.0
10.	Prudential Corp.	U.K.	83.5
11.	Allianz Group	Germany	82.0
12.	Caisse des Depots et Consignations	France	81.1
13.	Mitsubishi Trust & Banking	Japan	80.2
14.	Meiji Mutual Life	Japan	74.3
15.	Deutsche Bank Group	Germany	73.1
16.	Sumitomo Trust & Banking	Japan	73.0
17.	Mitsui Trust & Banking	Japan	70.6
18.	Daiwa Securities Group	Japan	69.1
19.	Yasuda Trust & Banking	Japan	67.0
20.	Nikko Securities Group	Japan	65.8
21.	Mercury Asset Mgmt.	U.K.	61.4
22.	Credit Agricole	France	60.0
23.	Yamaichi Securities Group	Japan	59.5
24.	Asahi Mutual Life	Japan	58.6
25.	Credit Lyonnais Group	France	56.3
26.	Paribas Group	France	56.2
27.	Nationale-Nederlanden	The Netherlands	56.0
28.	Toyo Trust & Banking	Japan	52.8
29.	Barclays de Zoete Wedd Investment Mgmt.	U.K.	51.5
30.	Union des Assurances de Paris	France	50.4
31.	INVESCO MIM	U.K.	49.6
32.	Dresdner Bank Group	Germany	49.5
33.	Australian Mutual Provident Society	Australia	49.0
34.	Societe Generale	France	49.0
35.	Trygg-Hansa SPP Group	Sweden	47.4
36.	Mitsui Mutual Life	Japan	46.4
37.	Banque Nationale de Paris	France	44.5
38.	Robert Fleming Holdings	U.K.	43.8
39.	Daiwa Bank	Japan	41.2
40.	Iduna Vereinigte Lebensversicherung	Germany	40.5
41.	Schroder Investment Mgmt.	U.K.	40.5
42.	Yasuda Mutual Life	Japan	39.9
43.	Norwich Union Life Insurance	U.K.	39.5
44.	Group des Assurances Nationales	France	39.3
45.	Zurich Insurance Group	Switzerland	39.0
46.	Standard Life Insurance	U.K.	37.2
47.	Lombard Odier & Cie	Switzerland	36.2
48.	PosTel Investment Mgmt.	U.K.	36.1
49.	Legal & General Assurance	U.K.	35.7
50.	Groupe Axa	France	35.0
51.	Caisse de Depot et Placement du Quebec	Canada	34.0
52.	Assurances Generales de France	France	33.9
53.	Chuo Trust & Banking	Japan	33.5
54.	Chiyoda Mutual Life	Japan	33.3
55.	Taiyo Mutual Life	Japan	32.4
56.	Lloyds Bank Group	U.K.	31.3
57.	Commercial Union Assurance	U.K.	30.5
58.	Desjardin	Canada	30.0
59.	Manufacturers Life Insurance	Canada	30.0
60.	Pictet & Cie	Switzerland	30.0
61.	Toho Mutual Life	Japan	30.0
62.	Aegon	The Netherlands	29.7
63.	Swiss Life Group	Switzerland	29.4
64.	Swiss Reinsurance	Switzerland	28.9
65.	Tokio Marine & Fire	Japan	27.8
66.	Baring Investment Mgmt. Holdings	U.K.	27.6
67.	Commerzbank	Germany	27.6
68.	Midland Bank Group	U.K.	27.1
69.	Zurcher Kantonalbank	Switzerland	27.0
70.	Winterthur Group	Switzerland	25.0
71.	Sun Alliance Insurance Group	U.K.	24.9
72.	Royal Insurance	U.K.	24.3
73.	Skandia Group	Sweden	23.9
74.	Banque Indosuez	France	23.2
75.	Kokusai Group	Japan	22.9
76.	Robeco Group	The Netherlands	22.8
77.	NM Rothschild Asset Mgmt.	U.K.	22.4
78.	Kyoei Life	Japan	22.0
79.	Munchener Ruckversicherungs	Germany	22.0
80.	Guardian Royal Exchange Assurance	U.K.	21.7
81.	Scottish Widows Fund & Life Assurance	U.K.	21.1
82.	Yasuda Fire & Marine	Japan	21.0
83.	National Mutual Group	Australia	20.5
84.	Bank Julius Baer	Switzerland	20.4
85.	County Investment Mgmt.	U.K.	20.3
86.	Eagle Star Holdings	U.K.	19.9
87.	Confederation Life	Canada	19.7
88.	Asahi Investment Trust	Japan	19.5
89.	TSB Group	U.K.	19.1
90.	Nihon Dental Life	Japan	18.3
91.	Volksfursorge Lebenversicherung	Germany	18.3
92.	Baltica Holding	Denmark	18.2
93.	Daido Mutual Life	Japan	18.0
94.	Great-West Life Assurance	Canada	18.0
95.	Bank in Liechtenstein	Liechtenstein	17.7
96.	La Baloise	Switzerland	17.5
97.	Daihyaku Mutual Life	Japan	17.4
98.	Kleinwort Benson Investment Mgmt.	U.K.	17.3
99.	ABN/AMRO	The Netherlands	16.9
100.	Taiyo Investment Trust	Japan	16.6

*Euromoney assisted in compiling this data. Source: InterSec Research Corp., Stamford, Conn.

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Post Office Life Insurance

TOKYO — The Post Office Life Insurance Bureau, a division of the Japanese government, does not release information on its investments. It has $102 billion.

Prudential Corp.

LONDON — Prudential Corp. would release only limited information on 43 billion pounds, or about $24.6 billion, of the total $83.5 billion of funds under management.

Of that amount, 49% is in equities, 32% is in fixed-income, 13% is in real estate equity and 1% is in cash.

Prudential has offices in Australia, New Zealand, Canada, Ireland, Italy, the Netherlands, Southeast Asia, Kenya and Malta. It also has a wholly owned subsidiary in the United States.

Sumitomo Mutual Life

TOKYO — Sumitomo Mutual Life, a Japanese insurance company, invests only its own funds. It has 81% of its $109.5 billion in assets invested in Japan, with the next largest amount, 11.5% invested in the United States. Of the remainder, 1% is invested in Germany, 0.9% in the United Kingdom, and 0.5% in France.

The lion's share of Sumitomo's assets, 64.1%, is in fixed-income investments. Another 27.3% of its assets is in equities, with 7.2% in real estate equity.

Sumitomo, based in Tokyo, also has offices in the United States, the United Kingdom, France, Germany, Australia, Singapore, Hong Kong and Canada.

Swiss Bank Corp.

BASEL, Switzerland — Swiss Bank Corp. declined to release any information about its asset management activities. It has $140 billion in assets.

Information on its mutual funds' asset allocations, however, is publicly available.

According to Swiss Bank's most recent annual report, it manages $21.8 billion (15.02 billion Swiss francs) of mutual fund money. Of that amount, 47.5% is in bond funds, 23.2% is in property funds, 21.8% is in money market funds and 7.5% is in equity funds.

Union Bank/Switzerland

ZURICH, Switzerland — Union Bank of Switzerland declined to release information on its $184.9 billion in total assets under management. Information on its recently acquired U.S. subsidiary, UBS Asset Management (New York) Inc. is publicly available, however.

UBS Asset management's assets are 45% from corporations, 28% from institutions, 9% from individuals and 18% from other clients.

Most of those assets, 94%, are invested in the United States.

UBS has 58% of its assets invested in the fixed-income sector, with 26% invested in equities and 13% invested in real estate equity, with another 3% is in oil and gas investments.

Zenkyoren

TOKYO — Zenkyoren, a large Japanese insurance company, invests primarily in Japan, with 97% of its $132.5 billion in assets allocated there. It mostly invests its own money, with only 0.2% of assets coming from pension funds.

Zenkyoren has 2% of its assets invested in the United States, with another 0.5% invested in France and 0.5% invested in Germany.

It has 45% of the assets in fixed-income instruments, with 4% in equities and 0.3% in real estate equities. The remaining assets are in loans.

Zenkyoren has offices in New York and London.

Pensions & Investments Datebook includes listings of upcoming events in general pensions management and accounting, real estate, corporate finance and cash management.

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Combined models basis for strategies

Matrix separates the best from the rest

By William G. Shipman

Merging growth and value investment styles by combining two uncorrelated models leads to a powerful portfolio process that avoids the pitfalls of single-style strategies and can be utilized in either a traditional approach or in a long/short strategy.

One of these models analyzes corporate attractiveness from many traditional perspectives. Cash flow and book value per share, return on equity, as well as price to book and yield are among those employed. These data then are compared to each security's historical ratios to determine whether the stock price is cheap or dear.

The growth in earnings model capitalizes on two important observations: a positive and contemporaneous relationship between the relative performance of stock prices and the change in analysts' earnings forecasts, and serial correlation in the forecasts themselves. When analysts increase their profit estimates, they tend to continue to do so. And not surprisingly, companies whose earnings estimates are increasing tend to outperform those that are not.

Table 1 highlights these points. A universe of about 1,000 stocks is ranked by earnings revisions from the beginning to the end of the quarter. The list is then divided into quintiles. The first column shows the stock price performance of each quintile relative to the universe during the quarter. If one had perfect knowledge of analysts' revisions just three months in advance, one could achieve the relative returns shown in the column.

Table 1

Stock performance based on analysts' earnings forecasts

(Quarterly data 1978-1989)

First quintile	27.02%	8.89%
Third quintile	-0.18	-0.98
Fifth quintile	-23.88	-8.74

Lacking foreknowledge, however, but given the serial correlation in analysts' forecasts, their next revision can be approximated. The second column lists the difference in relative performance earned using the statistical approximation of earnings forecasts.

The technique picks up about a third of the return that should be earned with perfect foresight. Notice that in both cases each quintile's return is ranked in the same order.

About 1,000 companies meet the historical data requirements and trading liquidity to be included in both models. The two models are combined in a matrix. Companies with high value and positive earnings growth end up in the northwest quadrant, the less attractive issues fall to the southeast.

The synthesis of these independent styles into a matrix yields a flexible tool allowing for at least two different strategies: long (or fully invested) and long/short.

The long portfolio is invested in

William G. Shipman is vice president at State Street Asset Management, Boston.

seven broad groups (as defined by Standard & Poor's Corp.), thereby making it sector neutral. A matrix of companies for each group is constructed and positions are taken starting from the northwest quadrant. Specific issues are weighted based on a combination of market capitalization and liquidity. A continuous flow of information guides rebalancing, but trading occurs only when the anticipated pickup in return is significantly greater than all transaction costs.

Risk/return characteristics, which are real-time and net of transaction costs, are shown in Table 2. Notice that although the annualized return is greater than the market's, the strategy's risk, or coefficient of variation, is less.

The long strategy, however, is only half of the story. Simultaneously selling short the unattractive stocks completes the picture.

There are two sources of return from a long/short portfolio: the broker's rebate and stock selection or performance spread. Long positions are selected from the northwest quadrant of the matrix, the short positions from the southeast.

See **Matrix** *on page 22*

Recently, The Equitable further strengthened its financial base through a $1 billion investment from AXA, one of Europe's largest insurers. The global alliance created by this investment gives both companies an unprecedented opportunity to expand their worldwide presence and an almost unlimited potential for growth.

THE TIMING IS RIGHT.

The need for stability in the insurance and financial services industries has never been more important. Globalization and deregulation are increasing more quickly than ever, and worldwide investing on a 24-hour basis has become a reality.

And now The Equitable and AXA are strongly positioned to take maximum advantage of these changes.

THE FIT IS RIGHT.

A major factor that will contribute to the success of this new association is the excellent fit between the two companies. In insurance operations, AXA relies heavily on an agency system to deliver its products; The Equitable's sales force of over 9,000 agents is recognized as one of the most productive and professional in the U.S. insurance business.

We both have strongholds in insurance markets that don't overlap: The Equitable in individual life and annuities in the U.S., and AXA primarily in property and casualty in Europe. And since the U.S. is the world's largest insurance market and the European Community is expected to become the world's largest unified market after 1992, the future looks bright indeed for this new global alliance.

In investment operations, The Equitable and AXA should be an especially powerful force. Together we manage well over $180 billion in assets, which, if combined, would create one of the world's largest institutional investors. And when you add AXA's investment knowledge and distribution capabilities in Europe to The Equitable's in the U.S., you open doors for countless joint investment opportunities all over the world.

THE PHILOSOPHY IS RIGHT.

Yet another big plus to this association is the philosophical fit of the two companies. Both consist of people who are committed to excellence, take pride in their professionalism, and are dedicated to building great financial institutions by providing quality service to policyholders and investment clients. These are people who will make the most of new opportunities.

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Table 2

Matrix synthesis portfolio vs. S&P 500

Year	Returns: Portfolio	Returns: S&P 500
1986	24.5%	18.5%
1987	4.1	5.2
1988	24.5	16.8
1989	41.0	31.5
1990	-4.6	-3.2
Annualized return	16.9	13.2
Quarterly standard deviation annualized	21.3	19.2
Coefficient of variation	126.0	145.5
Alpha	3.10	0.0
Beta	1.07	1.0

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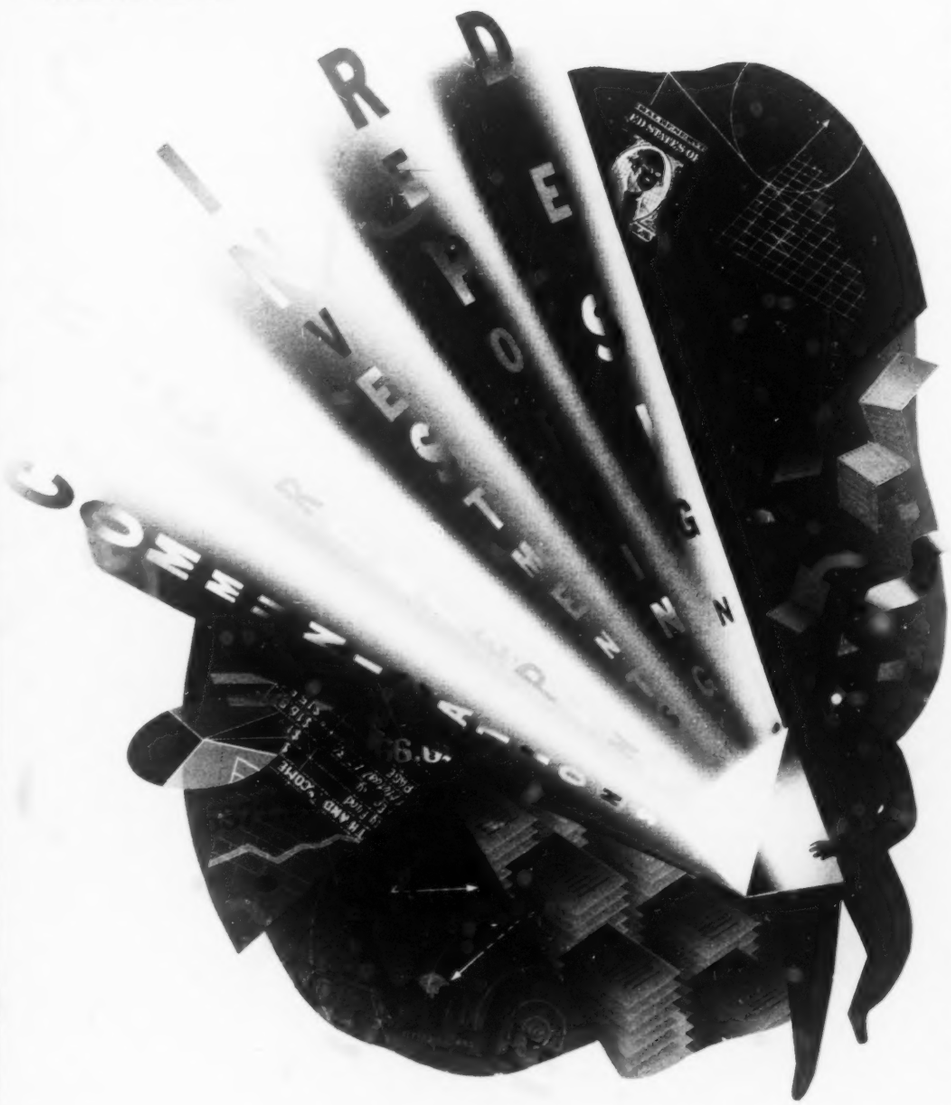

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Matrix

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The rebate, which approximates the three-month Treasury bill rate, is the interest earned on the proceeds from the short sales. The performance spread is the difference in returns of the long and short positions. This return is "market neutral," or not sensitive to the broad stock market.

To illustrate, assume the attractive stocks consistently outperform the market by six percentage points and the unattractive ones underperform by an equal amount.

Here's how the strategy would perform under three market scenarios:

- If the stock market were flat, the long stocks would be up 6% and the short stocks would be down 6%. The strategy's return would be 12%.
- If the market were up 10%, the long portfolio would rise 16%, the short portfolio, 4%. The strategy's return would be 12%.
- If the market fell 10%, the long portfolio would be down 4% and the short portfolio would be down 16%. The overall return would be 12%.

Because all market environments yield the same 12% return, the investor is virtually indifferent to broad market moves. Shocks — such as Oct. 19, 1987, when the market plunged 508 points — are taken with a yawn. Formal statistical analysis confirms the strategy is uncorrelated with the market.

Between 1985 and 1990, this hedged matrix strategy, after transaction costs, posted an annualized return of 25.4%, with an annualized standard deviation of 9.4%. During the same period, the Shearson Lehman Brothers Aggregate Index returned 11.68%, with a standard deviation of 6.29%; the S&P 500 Stock Index advanced 16.1% with a standard deviation 17.9%. When compared with the S&P 500, the hedged matrix strategy earned three times the return per unit of risk.

The attributes of market-neutral approaches enable the strategies to have many implications. They are a useful alternative to the problem guaranteed investment contract market because returns are substantially higher than GIC and money market rates, but risk is not. The lack of correlation with the S&P allows one to diversify the risk associated with a broad equity index. And, a long/short portfolio can be used to improve returns as an overlay to an index fund without introducing tracking error or additional funding. ■